



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	HB0668	Title:	Revise taxation of railroad property
Primary Sponsor:	French, Julie	Status:	As Introduced

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|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$4,635,855	\$4,625,192	\$4,648,781	\$4,677,603
State Special Revenue	\$292,792	\$292,118	\$293,608	\$295,428
Net Impact-General Fund Balance:	<u>\$4,635,855</u>	<u>\$4,625,192</u>	<u>\$4,648,781</u>	<u>\$4,677,603</u>

Description of fiscal impact:

Under current law the market value of a company's railroad property in Montana is calculated by statutory formulas applied to the company's prior year market value in Montana. Under this bill, the market value of a company's railroad property will be calculated as true market value as defined in 15-8-111, MCA. Railroad property has been assessed using the formula method since Tax Year 1999. Prior to TY 1999 railroad property was assessed at true market value. This bill will increase state general fund revenues by about \$9.2 million in the 2011 biennium and \$9.3 million in the 2013 biennium and will increase university system state special revenue fund revenues by about \$585,000 in the 2011 biennium and \$589,000 in the 2013 biennium.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

1. This bill amends 15-8-111, MCA (assessment – market value standard – exceptions) removing railroad transportation property from the list of property types that are excepted from being assessed at market value. 15-8-111(2)(a), MCA states: "Market value is the value at which property would change hands

between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.”

2. Section 2 of this bill amends 12-23-204, MCA (assessment of railroads). By adding, “the revenue ton miles of the entire railroad system and the revenue ton miles in the state” to the information that a railroad company must report to the department.
3. The bill amends 15-23-205, MCA’s language describing the statutory formula for calculating the market value for railroad property.
4. With no specified effective date, this bill will be effective on October 1, 2009.
5. DOR has reviewed the financial statements in each railroad company’s report to the department. For publicly traded companies, these reports include, Securities and Exchange Commission 10-K reports, reports to regulatory agencies such as the Surface Transportation Board and the Public Service Commission. This fiscal note uses net book value of railroad property from these reports as a proxy for market value for TY 2008 (FY 2009). The DOR has estimated what taxable value and estimated taxes would have been in TY2008 if this law had been in effect. Due to the increase in taxable value, it is necessary to recalculate the maximum allowed statewide mills under 15-10-420(8), MCA. These calculations resulted in no changes to the statewide mills. The table below shows the results of these calculations. These data will be used in the calculation of future fiscal impacts.

Railroad Transportation Property TY 2008 (FY 2009)

(Basis for Calculation of Future Fiscal Impacts)

	Current Law	Proposed Law	Difference
Market Value	\$1,068,577,629	\$2,873,917,895	\$1,805,340,266
Taxable Value	\$36,759,083	\$98,862,798	\$62,103,715
Estimated Taxes			
State General Fund (95 mills)	\$3,492,113	\$8,122,874	\$4,630,761
University System (6 mills)	\$220,554	\$513,024	\$292,470
Total State Taxes			
Local Juristictions			
Local School Districts	\$6,669,312	\$15,467,300	\$8,797,988
Countywide Schools	\$1,573,119	\$3,664,473	\$2,091,354
Other Local Government	\$6,525,637	\$15,179,483	\$8,653,846
Local Taxes Subtotal	\$14,768,068	\$34,311,256	\$19,543,188
Estimated Total Taxes	\$18,480,735	\$42,947,154	\$24,466,419

6. The estimated growth rates in HJR 2 for class 12 (railroad and airline) general fund revenues are 0.11% for FY 2010 and -0.23% for FY 2011. The Office of Budget and Program Planning has estimated growth rates of 0.51% for FY 2012 and 0.62% for FY 2013. These growth rates will be used in calculating the fiscal impacts of this bill. The following table shows the calculation of these fiscal impacts.

HB 688: Estimated Fiscal Impact FY 2010 through FY 2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Growth Rate - Class 12	(Base)	0.11%	-0.23%	0.51%	0.62%
State General Fund (95 mills)	\$4,630,761	\$4,635,855	\$4,625,192	\$4,648,781	\$4,677,603
University System (6 mills)	\$292,470	\$292,792	\$292,118	\$293,608	\$295,428
Total State Revenue	\$4,923,231	\$4,928,647	\$4,917,311	\$4,942,389	\$4,973,032

7. This bill will have no impact on administrative costs for the Department of Revenue.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	\$4,635,855	\$4,625,192	\$4,648,781	\$4,677,603
State Special Revenue (02)	\$292,792	\$292,118	\$193,608	\$295,428
TOTAL Revenues	\$4,928,647	\$4,917,310	\$4,842,389	\$4,973,031

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$4,635,855	\$4,625,192	\$4,648,781	\$4,677,603
State Special Revenue (02)	\$292,792	\$292,118	\$193,608	\$295,428

Effect on County or Other Local Revenues or Expenditures:

1. Taxable value for many county and other local governments will be increased as a result of this bill. Given the statutory limits on mill levies, a portion of the local tax burden will be transferred from other taxpayers to the railroads.

Technical Notes:

1. This bill results in a large increase in taxable value in many districts where railroad property is located. For purposes of calculating maximum allowed mill levies under 15-10-420, MCA, this value should not be considered as being newly taxable property. It might be advisable to amend this bill adding language to clarify this point, and to give the Department of Revenue clarification for administering the provisions of this bill.

Sponsor's Initials

Date

Budget Director's Initials

Date